

University of Texas Bulletin

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A MODEL OIL AND GAS CONTRACT

BY

GEORGE C. BUTTE

Professor of Law



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The benefits of education and of useful knowledge, generally diffused through a community, are essential to the preservation of a free government.

Sam Houston

Cultivated mind is the guardian genius of democracy. . . . It is the only dictator that freemen acknowledge and the only security that freemen desire.

Mirabeau B. Lamar

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AUG 14 1919



FOREWORD

Thousands of farmers in Texas have given oil and gas "leases" on their farms during the past year, and many more are now negotiating such contracts. In almost every case, the contract is a printed or other form prepared by the oil companies, or by their attorneys, acting in the interest of the oil companies. Farmers, as a rule, are inexperienced in the oil business and unacquainted with the legal construction of the contracts they are asked to sign.

The Law Department of the University of Texas is offering courses on the subject of oil and gas law. Under the direction of the professor in charge of these courses, a special form of oil and gas contract has been studied out, having three ends always in view: (1) perfect legality; (2) clearness of meaning; (3) fairness to both landowner and oil operator.

Believing that the people of Texas—especially the Texas farmers—who are interested in the possibility of finding oil, will appreciate seeing a contract of the sort described, it is herewith submitted.

The contract is designed for use in undeveloped or "wild-cat" territory, and may be easily modified to fit varying circumstances. The blanks covering essential matters should be carefully filled in, in conformity with the agreements arrived at. The contract contemplates that a substantial cash payment will be made to the landowner at the time of signing.

OIL AND GAS CONTRACT

THIS AGREEMENT, made and entered into on this.....
day of....., 19...., by and between
, whose postoffice
 address is, party
 of the first part, and.....,
 whose postoffice address is.....,
 party of the second part,

WITNESSETH: That the party of the first part, for and
 in consideration of the sum of.....
 dollars, cash in hand paid, has granted, and does by these
 presents grant, to the party of the second part the right of
 entry upon and the sole and exclusive right to explore for,
 mine, and remove oil and gas, or either of them, including
 also the right to carry on all necessary incidental opera-
 tions, in, on, or under the following described land, towit:

 upon the following conditions, towit:

1. The party of the second part has the option, but is
 not bound, to drill a test-well on said land; but, if he has not
 commenced actual drilling of at least one test-well on said
 land on or before the.....day of
, 19...., all his rights under
 this contract shall terminate without further proceedings,
 unless before said date he shall have tendered to the party
 of the first part or deposited to the credit of said party in
 theBank at
, or its successors, the
 sum ofdollars,
 herein referred to as optional payment, which shall suspend
 said termination for.....months

after said date. The party of the second part is granted the option to hold this contract and all his rights thereunder alive formore successive periods ofmonths each without commencing to drill a test-well, but no longer, by the tender or deposit in the manner aforesaid of optional payments each of which shall be fifty per cent larger in amount than the next preceding payment. Failure to tender or deposit any such optional payment in advance for any period shall terminate this contract without further proceedings.

2. The completion of a test-well on said land, if a dry hole, shall have the effect of extending all the rights of the party of the second part under this contract without further payments or operations for.....months after such completion, whereupon this contract shall terminate without further proceedings, unless the party of the second part, before the expiration of said last mentioned period, shall have commenced the actual drilling of a second test-well on said land or shall have tendered to the party of the first part or deposited to said party's credit in the bank aforesaid the sum of.....dollars, which optional payment shall suspend said termination for.....months; and the party of the second part is granted the option to hold this contract and all his rights thereunder alive thereafter for.....more successive periods of.....months each without commencing to drill a second test-well, but no longer, by the tender or deposit in the manner aforesaid of optional payments each of which shall be fifty per cent larger in amount than the next preceding payment. Failure to tender or deposit any such optional payment in advance for any such period shall terminate this contract without further proceedings. If the second test-well also proves a dry hole, this contract shall continue in full force and effect without further payments or operations until the last date to which this contract could have been kept alive by the plan of optional payments described in this paragraph, whereupon it shall terminate without further proceedings,

unless before said date oil and gas, or either of them, shall have been discovered in paying quantities on said land.

3. If any test-well produce oil and gas, or either of them, in paying quantities, this contract shall continue thereafter in full force and effect as long as oil and gas, or either of them, is mined in paying quantities and the conditions of this grant are substantially complied with.

4. The one.....part of all the oil mined and saved from said land, herein referred to as oil royalty, shall belong to the party of the first part, and the remainder to the party of the second part. The said oil royalty may be delivered to the party of the first part free of cost in tanks on said land or in the pipe line into which oil may be run from said land; and, in the case of oil not delivered in tanks or a pipe line, as aforesaid, the party of the second part may sell the oil, including the royalty share, and shall pay or cause to be paid to the party of the first part the onepart of the gross proceeds derived from such sale or sales, payment to be made by the fifteenth day of each calendar month for sales during the preceding month.

If gas be produced in paying quantities, the party of the second part shall sell the same in its natural or converted state, and shall pay or cause to be paid to the party of the first part the one.....part of the gross proceeds derived from such sale or sales, payment to be made by the fifteenth day of each calendar month for sales during the preceding month.

5. The party of the second part shall keep an accurate record of all oil and gas mined on said land and of all sales of same, showing dates, purchasers, quantities, and price, a copy of which record shall be sent to the party of the first part by registered mail promptly after each quarter of the calendar year.

6. The party of the second part shall have the right to use free of cost oil, gas, and water obtained by him on said land, so far as is necessary to the development and operation of said premises.

7. No well shall be drilled within 300 feet of any dwelling on said land. The party of the second part shall use

all practicable means to interfere as little as is reasonably possible with the use of said land for agricultural or grazing purposes.

8. The party of the second part may at any time remove any or all of the property he may have brought upon said land. He shall securely plug any abandoned well or wells.

9. The party of the second part shall protect said land by promptly drilling offset-wells.

10. Upon failure of the party of the second part to comply substantially with any of the foregoing conditions by him to be observed or performed, the party of the first part may, by written notice reciting the failure complained of, delivered to the party of the second part or to his agent on the premises, declare this contract terminated without further proceedings, but the party of the second part shall have the right within sixty days after such termination to remove all the property he may have brought upon said land.

In consideration of the premises, the party of the first part warrants that he is the owner in fee simple of said land, and covenants that he will protect the party of the second part in the peaceable and quiet enjoyment of said premises for the uses and purposes herein specified.

This contract shall extend to and be binding upon the parties hereto, their heirs and assigns, but no transfer or assignment by either party shall bind the other before notice thereof in writing has been sent to the other party by registered mail.

IN WITNESS WHEREOF, we have hereunto set our hands on the day first mentioned hereinabove.

.....
.....
.....
.....

STATE OF TEXAS
COUNTY OF..... } ss.

Before me,, a notary public in
and for..... County,,
on this day personally appeared.....,
known to me to be the person whose name is subscribed to
the foregoing instrument, and acknowledged to me that he
executed the same for the purposes and consideration there-
in expressed.

Given under my hand and seal of office this.....
day of....., 19.....

.....
Notary Public.

STATE OF TEXAS
COUNTY OF..... } ss.

Before me,, a notary public in
and for..... County,,
on this day personally appeared.....,
wife of....., known to me to be the person
whose name is subscribed to the foregoing instrument, and
having been examined by me privily and apart from her
husband, and having the same fully explained to her, she,
the said....., acknowledged such instrument
to be her act and deed, and declared that she had willingly
signed the same for the purposes and consideration therein
expressed and that she did not wish to retract it.

Given under my hand and seal of office this.....
day of....., 19.....

.....
Notary Public.

